
Chapter 7 Contents

Section 1 – Explanation of Investment Act

Section 2 – Summary of Legal Investments Under Public Act 20 of 1943 (As Amended)

Section 3 – Requirements of an Investment Policy

SECTION 1 EXPLANATION OF INVESTMENT ACT

Investment of surplus funds of political subdivisions, including government libraries, is regulated by Public Act 20 of 1943 (as amended). Refer to (MCL) 129.91-129.96. This section discusses the investment of general surplus funds of governmental units, and does not apply to investment of retirement system or retiree health care funds set up in accordance with those statutes.

The law defines the investments that may be purchased by political subdivisions, including libraries. See Section 2 for a Summary of Legal Investments.

The law also requires political subdivisions, including libraries, to adopt an investment policy and for any financial brokers or dealers to agree to comply with the policy. See Section 3 for Requirements of an Investment Policy. See Exhibit 7-1 for a Sample Investment Policy that addresses minimum requirements of the law.

In addition to the minimum requirements of the law, an entity may consider adding other provisions to its investment policy. The Municipal Treasurer's Association of the United States and Canada has developed a sample investment policy that contains other provisions (available by calling (202) 737-0660).

Investment of surplus funds of non-public library organizations is in accordance with bylaws or other governing documents.

From time to time, a library may be fortunate to be the recipient of marketable securities which may not be an authorized investment. For example, some libraries may receive corporate stock from individuals or their estates. The investment act cited above governs the purchase of investments by the library. Since such a donation of stock was not purchased by the library, the library is not required to divest itself of the stock. If the library were to sell the stock and reinvest the proceeds, it must be invested in accordance with the requirements above.

SECTION 2
SUMMARY OF LEGAL INVESTMENTS
UNDER PUBLIC ACT 20 OF 1943 (AS AMENDED)

Following is a summary of legal investments. More specific information can be obtained from Public Act 20 of 1943 (as amended). Refer to MCL 129.91. Also, refer to the Glossary of Terms chapter.

- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution. The financial institution must be:
 - a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government, and
 - that maintains a principal office or branch office located in the State of Michigan under the laws of this state or the United States.
- Bonds, securities or other obligations of the United States or an agency or instrumentality of the United States.
- Commercial paper rated at the time of purchase within the two highest classifications by at least two rating services and that matures not more than 270 days after the date of purchase.
- Repurchase agreements of the United States or an agency or instrumentality of the United States.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one rating service.
- Mutual funds registered under the federal Investment Company Act of 1940, composed of the investment vehicles described above.
- Obligations described above if purchased through an interlocal agreement under the Urban Cooperation Act of 1967 (e.g. the MBIA Michigan CLASS program).
- Investment pools organized under the Surplus Funds Investment Pool Act (Public Act 367 of 1982) (e.g. bank pools).
- Investment pools organized under the Local Government Investment Pool Act (Public Act 121 of 1985) (e.g. the Kent County investment pool).

SECTION 3 REQUIREMENTS OF AN INVESTMENT POLICY

Public Act 20 of 1943 (as amended) requires an investment policy. Refer to MCL 129.95. The investment policy must include the following minimum requirements:

1. A statement of the purpose, scope and objectives of the policy, including safety, diversification, liquidity and return on investment.
2. A delegation of authority to make investments.
3. A list of authorized investment instruments. (see list of allowable investments on the previous page). **Important: If the policy authorizes an investment in mutual funds, it must indicate whether the authorization:**
 - is limited to securities whose intention is to maintain a net asset value of \$1.00 per share; or
 - may also include securities whose net asset value per share may fluctuate on a periodic basis.
4. A statement concerning safekeeping, custody and prudence (see items 6 and 7 in Exhibit 7-1)
5. The Investment Act also requires that any financial intermediary, broker or dealer (that is, the banker or broker selling the securities):
 - be provided with a copy of the Library's investment policy;
 - acknowledge receipt of the policy; and
 - agree to comply with the terms of the policy regarding the buying or selling of securities.

Finally, the Act requires the investment officer to provide a written annual report to the board concerning the investment of the funds. Refer to MCL 129.96 Sec.6.

EXHIBIT 7-1
MICHIGAN DEPARTMENT OF TREASURY SAMPLE INVESTMENT POLICY

1. Statement of Purpose

It is the policy of _____ Library to invest its funds in a manner that will provide the highest investment return with the maximum security, while meeting the daily cash flow needs of the Library, and complying with all state statutes governing the investment of public funds.

2. Scope of Policy

This investment policy applies to all financial assets of _____ Library. These assets are accounted for in the various funds of the Library and include the general fund, special revenue funds, debt service funds, capital project funds, enterprise funds, internal service funds, trust and agency funds and any new fund established by the Library.

3. Investment Objectives

In priority order, the primary objectives of _____ Library's investment activities shall be:

Safety: Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Diversification: The investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

Return on Investment: The investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

4. Delegation of Authority to Make Investments

Authority to manage the investment program is derived from MCL 41.76 and *(insert the board resolution designating depositories)*. Management responsibility for the investment program is hereby delegated to the _____, who shall establish written procedures and internal controls for operating

the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the _____. The _____ shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

5. Authorized Investment Instruments

(If mutual funds are authorized, include a statement indicating whether the authorization is limited to securities whose intention is to maintain a net asset value of \$1 per share or also includes securities whose net asset value per share may fluctuate on a periodic basis).

The Library is limited to investments authorized by PA 20 of 1943, as amended, and may invest in the following:

(List the investments authorized by PA 20 that the Library board wants to allow the Library's funds to be invested in).

6. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements and financial institution deposits, entered into by _____ Library shall be on a cash *(or delivery vs. payment)* basis. Securities may be held by a third party custodian designated by the treasurer and evidenced by safekeeping receipts as determined by the _____.

7. Standard of Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived.

This simplified version was developed by the Michigan Department of Treasury. In the opinion of Treasury staff, it meets the minimum requirements of Public Act 20 of 1943, as amended by PA196 of 1997.